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Government
Publications

Ontario. Securities commission
[General publications]
[G-1] Canadian provincial securities administrators; national policies.
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CANADIAN PROVINCIAL SECURITIES ADMINISTRATORS

NATIONAL POLICIES

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April, 1971

NATIONAL POLICY NO. 1

CLEARANCE OF NATIONAL ISSUES

To facilitate the acceptance of a prospectus in more than one province and to provide for uniformity of administration, the securities regulatory authorities ("the administrators") for the Provinces of Alberta, British Columbia, Manitoba, New Brunswick, Ontario, Prince Edward Island, Quebec and Saskatchewan* have agreed upon the procedure which may be followed by an underwriter or an issuer wishing to clear a prospectus in more than one province.

This procedure is as follows:

1. The preliminary prospectus must be filed contemporaneously with the administrator in each of the provinces in which it is proposed to distribute the issue.

2. The "principal jurisdiction" will normally be selected by the party making the filing. The selected province may or may not agree to accept. The party making the filing shall advise each of the provinces in which the preliminary prospectus is filed of the names of the "principal jurisdiction" and each of the other provinces in which it is proposed to distribute the issue.

3. The securities administrator in the "principal jurisdiction" in which it is sought to clear the issue will assume responsibility on behalf of each of the other provincial administrators for clearing deficiencies with the party making the filing.

*The Provinces of Newfoundland and Nova Scotia were not represented at this special conference and are being consulted as to their participation.

acceptable form, he will then advise the other jurisdictions immediately by telegraph or teletype of his intention to accept the prospectus for filing. The other jurisdictions will then respond by advising him as to the acceptability or otherwise of that prospectus, subject, in the affirmative, to their receiving signed final material. The administrator in the "principal jurisdiction" will then advise the party making the filing.

9. The signed final material shall be filed, so near as may be, contemporaneously in each of the other jurisdictions. The other provincial administrators will then be in a position to accept or refuse the filing.

10. It must be clearly understood that this procedure is being adopted on a trial basis for the convenience of the investment community. It involves no surrender of jurisdiction by any provincial regulatory authority. Each of the administrators will retain in its entirety the statutory discretion vested in him to review, accept or reject a particular prospectus, subject to the terms and conditions which are normal to that jurisdiction.

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NATIONAL POLICY NO. 2

GUIDE FOR MINING ENGINEERS, GEOLOGISTS AND PROSPECTORS

SUBMITTING REPORTS TO CANADIAN PROVINCIAL SECURITIES ADMINISTRATORS

GENERAL

Reports submitted must be engineering documents. They must be factual and the recommendations must be warranted in the light of the information and data presented in the report.

Professional Engineers will use their seal.

Reports will not be accepted for the purposes of a prospectus if prepared by a mining engineer, geologist or prospector who has not gained a minimum of three years practical experience, unless the author holds exceptional qualifications and there are unusual circumstances.

Where the proceeds of the issue are being applied to the property being reported upon, the person making the report required to be filed with the administrator (Commission) must be free of any association with the issuing company. Therefore, except where specifically provided for in the Regulations, the report shall not be written by a director, officer or employee of the company or of an affiliate of the company or who is a partner, employer or employee of any such director, officer or employee or who is an associate of any director or officer of the company or of an affiliate of the company. The report shall not be submitted if the person making it or any partner or employer of or associate to him beneficially owns, directly or indirectly, any securities of the company or of a subsidiary thereof or, if the company is a subsidiary, any securities of its holding company. This latter restriction does not apply to a person, partner, employer or associate, as the case may be, if the person, partner, employer or associate is

not empowered to decide whether securities of the company or its holdings company, as the case may be, are to be beneficially owned, directly or indirectly, by him, or if he is not entitled to vote in respect thereof.

SOURCE OF INFORMATION

If the information and data are not based on the author's own observations and investigations, their source should be clearly stated, giving exact reference to published reports and records. When such information is derived from private reports or records, a photostatic or other authenticated copy of the original should be submitted.

CONTENTS

A complete report should include a description of the properties of the issuer in accordance with the requirements of the appropriate provincial legislation and regulations and should contain a summary as well as geophysical and geochemical data and plans.

The description of the properties must include claim numbers, whether patented or unpatented and if contiguous. The percentage interest held in the properties should be stated.

If the potential merit of a property is predicated entirely or in part on results obtained on neighbouring ground, the known history of the latter should also be covered.

In the description of the mineralization, references as to its grade should be substantiated by assays with the data thereof, and if possible

by assay plans and sections. In addition to giving the widths of the individual samples it should be stated whether these were the author's own samples or those of other parties. It should also be clear whether assay results are based on channel samples, chip samples, grab samples, character samples or core samples.

Values in precious metals should be expressed in ounces per ton and the content of other metals, etc., in percentages or pounds per ton.

Care should be taken in the use of the word "ore". The term is defined in certain provincial regulations as follows:

(a) "ore" means mineralization that can be mined and treated at a profit;

(b) "positive ore", sometimes referred to as developed ore or blocked out ore, means ore that has been delimited on four sides;

(c) "probable ore", sometimes referred to as indicated ore, means ore which has been delimited on two sides or mineral concentrations of uniform character which have been outlined by a sufficiently large number of diamond drill holes; and

(d) "possible ore", sometimes referred to as inferred ore, means ore for which there is sufficient warrant to believe that it exists beyond the known portion of a deposit, but which has been insufficiently explored to be classed as probable ore."

Where the word "ore" may not properly be used such terms as "mineralization", "mineralized bodies", or "concentrations", etc., should be used.

The information supplied in the report should be sufficient and positive enough to warrant the recommendations made. An estimate of costs for the proposed program should be included.

MAPS

Reports must be sufficiently well illustrated by plans and if possible by sections to give an adequate picture of the property. All reports must be accompanied by a location or index map and a more detailed plan showing all important features described in the text. If nearby properties have an important bearing on the possibilities of the ground under consideration, their location should be shown on the maps. Where the mineralized or ore-bearing structures are expected to pass from one property to the other, this implication should be indicated clearly on the map.

In case the potential merit of a property is predicated on geophysical or geochemical results, maps showing detailed result of the surveys should be submitted.

All maps should show a scale, a North arrow, and should be signed and dated. Professional Engineers will use their seals. If geological features or other data have been taken from Government maps or from drawings of other engineers or geologists, this should be properly acknowledged.

NATIONAL POLICY NO. 3

UNACCEPTABLE AUDITORS

The report of an auditor will not be viewed as being acceptable under the appropriate securities legislation where:

(1) The auditor is a director, officer or employee of the company being reported upon or of an affiliate of the company or is a partner, employer or employee of any such director, officer or employee or who is an associate of any director or officer of the company or of any affiliate of the company.

(2) The auditor or any partner or employer of or associate of him beneficially owns, directly or indirectly, any securities of the company or of a subsidiary of the company or, if the company is a subsidiary, any securities of its holding corporation provided that the disqualification will not apply to the person, partner, employer or associate, as the case may be, if the person, partner, employer or associate is not empowered to decide whether securities of the company or its holding company, as the case may be, are to be beneficially owned, directly or indirectly, by him, or if he is not entitled to vote in respect thereof.

NATIONAL POLICY NO. 4

CONDITIONS FOR DEALER SUB-UNDERWRITINGS

Where the plan of distribution set out in a prospectus discloses that the underwriter may sell to a dealer as principal (hereinafter called "registrant"), the registrant may in turn distribute these securities providing the following conditions are complied with:

(1) The registrant must acquire the securities for its own account as principal and distribute the securities to the public as principal in accordance with the conditions disclosed under the heading "Plan of Distribution" in the prospectus.

(2) The offering price to the public shall not be greater than that disclosed in the prospectus.

(3) Notice of intention to engage in primary distribution to the public as principals must be filed with the administrator (Commission) by the registrant.

NATIONAL POLICY NO. 5

RECOGNITION OF PROFITS IN REAL ESTATE TRANSACTIONS

Due to lack of uniformity in applying accounting principles to real estate transactions, the administrator (Commission) considered the problem and concluded to adopt the following guidelines:

The presence of one or a combination of the following factors may raise a question of the propriety of current recognition of profit.

1. Evidence of financial weakness of the purchaser;

2. Substantial uncertainty as to amount of costs and expenses to be incurred;

3. Substantial uncertainty as to amount of proceeds to be realized because of form of consideration or method of settlement, e.g., non-recourse notes, non-interest bearing notes, purchaser's stock, and notes with optional settlement provisions all of undeterminable value;

4. Retention of effective control of the property by the seller;

5. Limitations and restrictions on the purchaser's profits and on the development or disposition of the property;

6. Simultaneous sale and repurchase by the same or affiliated interests;

7. Concurrent loans to purchasers;

8. Small or no down payment;

9. Simultaneous sale and leaseback of property.

The administrator (Commission) has concluded that the recognition of income from sales of land for development should be at the date when all material requirements of the vendor under or related to the sales agreement have been met. These may include one or more of the following:

(a) Registration of a plan of subdivision;

(b) Availability of building permits;

(c) Letting of a contract for land servicing (installation of roads, sewers, water-mains, etc.) and including the obtaining of a performance bond if required by the municipality;

(d) Interest on the buyer's obligation must have commenced to accrue at a reasonable interest rate (not less than bank rate);

(e) Balance of purchase price must be payable with some reasonable relationship to the progress of the development;

(f) An amount of at least 15% of the sale price must have been received in cash and the buyer is a responsible and established organization.

NATIONAL POLICY NO. 6

MUTUAL FUNDS : SALES CHARGES

Sales charges rates shall be expressed as a percentage of the amount paid by the purchaser as well as a percentage of the net amount invested.

NATIONAL POLICY NO. 7

MUTUAL FUNDS: MANAGEMENT FEES

(1) The maximum annual management fees and other expenses which may be charged against assets of a fund, calculated as a fixed percentage of the average total net assets under administration, shall be as follows:

Up to $1,000,000	- 2%
$1,000,000 up to $3,000,000	- 1 3/4%
$3,000,000 up to $5,000,000	- 1½%
$5,000,000 up to $10,000,000	- 1¼%
$10,000,000 up to $100,000,000	- 1%
$100,000,000 and over	- .75%.

(2) It is emphasized that the maximum percentage must include both the management fee chargeable and all other expenses. The term "other expenses" shall mean all other expenses incurred in the ordinary course of business relating to the organization, management and operation of the fund with the exception of commissions and brokerage fees on the purchase and sale of portfolio securities and taxes of all kinds to which the fund is or might be subject.

(3) In applying the schedule of rates it is only that portion of net assets under administration in excess of the upper limits of each fee range that is subject to the next lower maximum of management fees and other expenses. For example, a fund having assets in excess of $1,000,000 would be subject to maximum rates of less than 2% only on that portion of assets under administration in excess of $1,000,000.

(4) The management fees shall be calculated in accordance with the formula set out in the prospectus. However the maximum period of time between such calculations shall not exceed three months.

(5) The calculation of "other expenses" shall be the same time periods as the management fees. The maximum period of time between such calculations shall not exceed three months.

(6) While the calculation of "other expenses" shall be made for the same periods of time as the management fees the amount by which the "other expenses" exceeds the maximum permitted under the policy during any one three-month period may be held over to a succeeding three-month period (or lesser period, if not operative over a full year) providing the total amount charged during such combined periods does not exceed the maximum annual permitted under this policy.

NATIONAL POLICY NO. 8

MUTUAL FUNDS - COMPUTATION OF NET ASSET VALUE PER SHARE

Portfolio Transactions and Capital Transactions - Definition and Timing of Application - Net Asset Value Per Share

The term portfolio transactions shall mean transactions of purchase and sale of investments effected by a mutual fund and the term capital transactions shall mean issues and redemptions by a mutual fund of its shares or units.

(a) Portfolio Transactions:

A portfolio transaction shall be reflected in the computation of N.A.V.P.S. not later than the first such computation made after the date on which the transaction becomes binding.

(b) Capital Transactions:

A capital transaction shall be reflected in computations of N.A.V.P.S. made more than twenty-four hours after the time as at which the N.A.V.P.S. applied to implement the transaction is computed.

Where transactions known at the time of an N.A.V.P.S. computation would change the resultant N.A.V.P.S. by as much as a cent, and this fact is known or ought reasonably to be known to the responsible organization, an appropriate adjustment shall be made in the resultant figure.

NATIONAL POLICY NO. 9

MUTUAL FUNDS - FORWARD PRICING, SALES AND REDEMPTIONS

(a) Sales and redemptions of mutual fund shares or units shall be implemented at a net asset value computed as at a time after the receipt of a firm order by the distribution company or its agent, and the implementation of sales or redemptions at a net asset value computed as at an earlier time, referred to as "backward pricing" is unacceptable.

(b) The net asset value per share or unit for a mutual fund shall be computed no less frequently than once in each month.

NATIONAL POLICY NO. 10

MUTUAL FUNDS - REDEMPTION OF SECURITIES

The terms and conditions under which a mutual fund will redeem its securities, shall include the following:

(1) A clear statement of the procedures to be followed and the material to be furnished by a shareholder or unitholder to the fund in connection with a request for redemption should be included in the documents with which the shareholder or unitholder is supplied to constitute evidence of his holding.

(2) Subject to the exceptions set out in the paragraphs following, when a request is received by the mutual fund complying with the instructions provided in accordance with (1), the mutual fund shall make payment in Canadian currency within seven days of the date of the computation of the net asset value upon which that redemption is based.

(3) The delivery of "liquid investments" (as defined in (5)) in satisfaction of a request for a redemption is permitted if the written consent of the redeeming shareholder or unitholder is obtained and dated as at the date of the request for redemption, and details of the transaction, including a list of the securities delivered, are filed with the Commission for inclusion in its public file within 10 days of the redemption provided that the liquid investments delivered by the mutual fund should be valued at an amount equal to or greater than the value assigned to them for the purpose of computing net asset value per share.

(4) A mutual fund may suspend the redemption of its shares or units in the following circumstances:

(a) during any period when normal trading is suspended on any stock exchange within or outside of Canada on which securities are listed which represent more than 50% by value of the total assets of the mutual fund, without allowance for liabilities; or,

(b) where the head office is in Canada or where the principal office of the fund from where it is managed is in Canada with the consent of the administrator (Commission) of the province in which that head office or principal office is located or if the head office or principal office is in the United States of America with the consent of the Securities and Exchange Commission; or

(c) with the consent of the administrator (Commission).

(5) "Liquid investments" means any asset which satisfies one or more of the following tests:

(i) if it is listed and posted for trading on a stock exchange or is traded regularly in a public trading market and price quotations for it based on such trading are regularly published; or,

(ii) if facilities are available to permit the ready disposal of the asset at an amount substantially equal to the price at which it is valued in the determination of net asset value but an investment will not be considered to have satisfied this test merely because a company associated with the mutual fund has agreed to purchase the investment to produce liquidity; or

(iii) if it is cash or its equivalent including cash of other countries if conversion into Canadian currency can be readily effected;

but an investment cannot be considered to be a liquid investment if the mutual fund which owns it is not in a position to sell it without restraint.

NATIONAL POLICY NO. 11

MUTUAL FUNDS - CHANGE OF MANAGEMENT - CHANGE IN INVESTMENT POLICIES

The administrators (Commissions) noted with concern recent problems encountered by funds being sold outside of continental North America flowing from changes in management and investment policies. Recently its attention was drawn to the fact that the controlling shareholder of a management company responsible for providing management and investment advice to a group of Canadian funds whose securities are widely distributed across Canada was attempting to sell its share in the management company. The controlling shareholder has not sought advice or guidance from any of the securities administrators in those provinces in which the funds being administered by the management company are being sold so far as we can determine.

It is fundamental that before any fund securities are qualified for sale in a province, whether the issuer is a corporation or a trust, the administrator must be satisfied as to the honesty, the reputation and the competence of the management group, including the controlling shareholders. The investment policies must be acceptable and permit the liquidity required for redemption purposes. It must also indicate the nature of the risks they propose taking. There are certain other matters including custodial arrangements for assets which must also be satisfactory to the administrator.

The administrators (Commissions) view it equally fundamental that any proposed changes should be made only after their prior approval by the appropriate regulatory authorities.

The administrators (Commissions) have concluded that the public interest requires that

any material changes in management, or the control of the management company, the investment policies of the funds which have been sold in the province or the custodial arrangements of their assets should be made only after prior approval has been obtained from the administrator (Commission). If prior approval is not sought and obtained the administrator (Commission) may deem it appropriate to take action in the interests of investors including suspension of trading in the fund securities and such other steps as may appear necessary to preserve the assets of the funds while enquiries are being made upon which a judgment may be based.

NATIONAL POLICY NO. 12

DISCLOSURE OF "MARKET OUT" CLAUSES IN UNDERWRITING AGREEMENTS IN PROSPECTUSES

As a result of a number of situations which have developed in the past whereby Underwriters have exercised their discretion with respect to "market out"clauses contained in Underwriting Agreements which has resulted in a no offering or a cessation of an offering it was felt that prospectuses did not contain adequate disclosure with respect to the "market out" clauses contained in the Underwriting Agreement. As a result the following is required:

Cover Page:

The following wording will be required on the Cover Page of a prospectus to ensure disclosure of the conditional aspects of the Underwriting Agreement and a proper reference to the location of further details in the prospectus.

"We, as principals, conditionally offer these Debentures, subject to prior sale, if, as and when issued by the company and accepted by us in accordance with the conditions contained in the underwriting agreement referred to under Plan of Distribution on Page ... and subject to the approval of all legal matters on behalf of the company by Messrs. ..... and on our behalf by Messrs. ..... "

Plan of Distribution:

The following wording shall be included under this section:

"Under an agreement dated ..... 19... between the company and .....

as underwriter, the company has agreed to sell and the underwriter has agreed to purchase on .....19... the $..... principal amount of Debentures at a price of $..... per $100 principal amount thereof plus accrued interest to the date of delivery, payable in cash to the company against delivery of the Debentures. The obligations of the underwriter under such agreement may be terminated at its discretion on the basis of its assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The underwriter is, however, obligated to take up and pay for all of the Debentures if any of the Debentures are purchased under such agreement."

The above wording represents terminology which would be considered acceptable, however, other wording would also be considered acceptable providing such wording would not alter the effectiveness of the disclosure.

NATIONAL POLICY NO. 13

DISCLAIMER CLAUSE ON PROSPECTUS

The following statement shall appear on the front page of each prospectus and preliminary prospectus filed:

"NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE CONTRARY IS AN OFFENCE."

NATIONAL POLICY NO. 14

ACCEPTABILITY OF OTHER CURRENCIES IN MATERIAL FILED WITH THE PROVINCIAL SECURITIES ADMINISTRATORS

On May 31, 1970, the Canadian dollar abandoned its previous status so that it is now a floating currency. In the meantime because of the number of U.S. firms whose securities are being traded in Canada and the number of Canadian firms who are maintaining their records in U.S. dollars, it has therefore become necessary to clarify the position of the administrators respecting the use of U.S. dollars in financial reporting pursuant to the appropriate provincial securities Legislation.

This policy is therefore applicable to such companies and sets out the requirements with respect to disclosure in prospectuses and other filings made by such companies.

PROSPECTUSES:

The offering price must be stated in Canadian dollars.

Where the rate of exchange does not produce a significant difference between disclosure resulting from the use of Canadian dollars as compared to the use of U.S. dollars, the exchange rate should be indicated in the narrative portion of the prospectus along with a statement that the application of the exchange rate would not result in a significant difference. A footnote should also be added to the financial statements making the same statement and disclosing the exchange rate.

Where the exchange rate does produce a significant difference the current exchange rate must be disclosed on the outside front cover or face page and all basic figures in both the narrative and the financial statements

must disclose the Canadian dollar equivalent utilizing the current exchange rate. A footnote must also be added to the financial statements disclosing the current rate and method of application.

FILINGS IN OTHER CURRENCIES

Filings of material using any currency other than that of Canada or the United States is not considered to be either meaningful disclosure or compliance with the appropriate provincial securities legislation.

Accordingly, a company which is subject for instance to the filing requirements of Parts IX, X and XII of The Ontario Securities Act and the Regulations thereunder and which reports to its shareholders in any currency other than that of Canada or the United States shall file a copy of the material required to be filed with its financial information disclosed in terms of the Canadian dollar equivalent of the other currency in which the company reports to its shareholders.

NATIONAL POLICY NO. 15

CONDITIONS PRECEDENT TO ACCEPTANCE OF SCHOLARSHIP OR EDUCATIONAL PLAN PROSPECTUSES

The sale of contracts or plans commonly referred to as "university scholarship plans" or "scholarship agreements" must be subject to the following conditions before the prospectus will be acceptable for filing:

(1) A very clear distinction must be drawn between the "foundation" (which is described as a body without any profit motive or desire for pecuniary gain) and the distributor (the registered distribution agency who sell the plan under a commission arrangement often described as an "enrolment fee") in order that the public will not be induced into the error of believing that there are no sales charges or other commissions.

(2) The scholarship plan distributors and salesmen, of course, must hold registration under the specific provincial acts. The use of such expressions as "education counsellors", "scholarship counsellors or advisers", "enrolment counsellors" is viewed as misleading and should not be used.

(3) The funds received from the subscribers must be deposited in an individual identifiable account in the subscriber's name with a bank or a provincially licensed trust company or other institution whose accounts are insured by the Canada Deposit Insurance Corporation or the Quebec Deposit Insurance Board.

(4) The fund administrator, which is usually the "foundation", will secure the best interest rate possible on the deposits,

and the interest paid on the subscriber's capital shall be transferred to a trust fund held by a duly registered trust company which in turn will be administered for the benefit of the beneficiaries of the plans.

(5) The depository must maintain an accounting system which will permit it to determine the amount of interest produced by the deposit of each subscriber.

(6) The trust funds shall be administered pursuant to a trust indenture or deed in accordance with the terms detailed in the prospectus, and must contain a provision under which a licensed trust company agrees to act in the place of the foundation in the event that the foundation refuses to or is unable to act.

(7) The entrance fees charged, including the commissions of the distributor and its salesmen, must not exceed $175.00 per plan. The first $100.00 paid under the plan may be applied against this fee and the balance may be deducted at a maximum rate of 50% of each of the further contributions.

(8) From these fees sufficient funds must be set aside in trust to pay the future costs of administering the trusts established under (6). These funds shall not be used directly or indirectly for any other purpose. The costs of distribution must be borne fully by the distribution company. Any additional sums rebated or otherwise paid by the depository to assist in the payment of the charges for administration of the funds shall be held in trust by the foundation solely for this purpose and shall not be paid directly or indirectly for any other purpose.

(9) The plan must grant the subscriber the right to withdraw from the plan without any cost to the subscriber within 30 days from the execution of the contract.

(10) Where the subscriber wishes to withdraw from a plan after 30 days and before 180 days from the date of the execution of the contract:

(a) The subscriber shall not be obliged to pay any additional fees to those already paid;

(b) If the subscriber has made a lump sum payment, he shall forfeit a maximum of $80.00 of the fee paid and the balance of the fee paid shall be returned by the distribution company and the capital by the depository; and

(c) Where the plan is payable over a period of time and the fees paid exceed $80.00, the subscriber shall be entitled to the return of only 50% of the fees already paid in excess of the $80.00. The $80.00 will also be forfeit. The distribution company shall be responsible for the return of the excess fees paid.

(11) After a period of 180 days the subscriber who cancels his contract may lose the total amount of the fees paid to that point.

(12) It is considered contrary to the public interest to accept for filing a scholarship plan which calls for the complete forfeiture of the capital and accumulated interest in cases where the plan is abandoned before its maturity. The same shall apply to so-called "special" plans

which consist of the simple deposit by the subscriber of an amount equivalent to the interest, without any right to reimbursement.

(13) The schedule of instalment payments must be equitable for all children enrolled. In the setting of the schedules, accounts must be kept of the age of the children and the number of instalments foreseen so that there is an actuarial equivalent between the instalments foreseen for each age and each plan. Accordingly the so-called "family plans" are not acceptable.

(14) All beneficiaries must participate equally in the advantages of the plan. The foundation or trustee must make provision in the trust indenture for the payment of equivalent scholarships for each of the eligible participants.

(15) Scholarship plan agreements must be filed with the preliminary prospectus (or prospectus as the case may be) as part of the supporting material together with a copy of the trust agreement.

(16) The prospectus shall clearly indicate on its front page the speculative nature of the scholarship plans and the real cost of participation in the plan to the subscriber, including tax implications.

NATIONAL POLICY NO. 16

MAINTENANCE OF PROVINCIAL TRADING RECORDS

In order that complete details concerning trades in a specific province should be readily available to the administrator (Commission) in that province and its staff it shall be a condition attaching to all registrations, excepting salesmen and underwriters, whose head office records are maintained other than in the specific province, that there shall be maintained in that province and readily available for examination by the administrator's (Commission's) staff such ledgers, books of account, correspondence and other documents and records as are necessary to provide complete details of each transaction from or within that province.

NATIONAL POLICY NO. 17

VIOLATIONS OF SECURITIES LAWS OF OTHER JURISDICTIONS - CONDUCT AFFECTING FITNESS FOR CONTINUED REGISTRATION

Notice is hereby given to all securities registrants that violations of the securities laws of any jurisdiction is considered in principle to be prejudicial to the public interest and may affect their fitness for continued registration.

NATIONAL POLICY NO. 18

CONFLICT OF INTEREST-REGISTRANTS ACTING AS CORPORATE DIRECTORS

The position of a representative of a registrant acting as a director of a public company is one that is fraught with the possibility of a conflict of interest. This arises more particularly in regard to questions of insider information and trading and timely disclosure.

The administrators (Commission) emphasize that all registrants should be most conscious of their responsibilities in such situations and weigh the burden of dealing in an ethical manner with the conflict of interest problems against the advantages of acting as a director of a public company, many shareholders of which may be clients of the registrant. In this regard, the statement on conflict of duty arising out of the position of registrants acting as directors of public corporations issued by The Toronto Stock Exchange on December 5th, 1968, is called to the attention of all registrants, whether members of The Toronto Stock Exchange or not, since it defines acceptable conduct in this area.

> "Every director has a fiduciary obligation not to reveal any privileged information to anyone not authorized to receive it. Not until there is full public disclosure of such data, particularly when the information might have a bearing on the market price of the securities, is a director released from the necessity of keeping information of this character to himself. Any director of a corporation who is a partner, officer or employee of a member organization, should recognize that his first responsibility in this area is to the corporation on whose board he serves. Thus, a member firm

director must meticulously avoid any disclosure of inside information to his partners and employees of the firm, his customers or his research or trading departments.

Where a representative of a member organization is not a director but is acting in an advisory capacity to a company and discussing confidential matters, the ground rules should be substantially the same as those that apply to a director. Should the matter require consultation with other personnel of the organization adequate measures should be taken to guard the confidential nature of the information to prevent its misuse within or outside of the member organization."

Whenever questions arise regarding the fitness for registration of individuals, the administrator (Commission) will consider the conduct of such individuals in relation to the manner in which they have complied with the standards set out above.

NATIONAL POLICY NO. 19

MUTUAL FUND SALES COMPANIES: COMMINGLING OF FUNDS AND SECURITIES

The registrations of all mutual fund contractual plan distributors or underwriters holding provincial registration, excepting members of a stock exchange recognized in the particular province or of the Investment Dealers' Association of Canada, must comply with the following requirements:

(1) All monies received by a contractual distributor or underwriter of a mutual fund

(a) for investment in the shares of the mutual fund either directly or through the medium of a plan; or

(b) upon redemption of shares of the mutual fund either directly or through the distributor or underwriter;

shall, when received by the distributor or underwriter be separately accounted for and be deposited in a trust account out of which may be paid the sales charges, service fees and monies received for purposes other than investment in shares of the mutual fund to which the distributor or underwriter may be entitled, but which monies shall not be otherwise commingled with the assets of the distributor or underwriter or used in any way to finance its operations;

(c) any interest earned on monies deposited in the trust account less bank charges on the account shall be turned over to the mutual fund as received for the benefit of all shareholders or unitholders. In the case of a trust account used for more than one fund a pro rata application shall be made based on cash flow;

(d) monies received for the purchase of shares or units shall be transferred to the mutual fund within two business days following the determination of the price of the shares or units purchased.

2. Contractual distributors or underwriters of a mutual fund are prohibited from transferring, pledging, encumbering or dealing with in any way, shares of a mutual fund held for investors for safekeeping, under plans or otherwise, except to the extent specifically provided for in any written agreement between such distributors or underwriters and the investor setting out the terms under which such mutual fund shares are being held.

3. To ensure compliance with these provisions each contractual distributor or underwriter of a mutual fund is required to file with the administrator (Commission) annually the auditor's report that in the opinion of such auditor the company has complied with the provisions of this policy statement regarding commingling of funds or shares.

4. The failure to comply with these provisions shall be deemed conduct making a registrant subject to discipline by the administrator (Commission.)

5. A contractual distributor or underwriter of a mutual fund shall be deemed to comply with paragraph 1 of the foregoing provisions,

(a) if all the monies received from investors are placed in the same trust account with the monies received from the fund for redemption of shares and the netting of proceeds from sales against proceeds from redemptions and the furnishing of one money settlement for both types of transactions is within the intent of the foregoing provisions, or

(b) if all the monies received from investors are separately accounted for and the net amount to be invested in the shares

of the mutual fund is paid to the mutual fund by certified cheque simultaneously with the deposit in the distributor's or underwriter's general bank account of the monies received from the investor provided the said deposit is made within the time limits provided by paragraph 1(d).

NATIONAL POLICY NO. 20

TRADING IN UNQUALIFIED SECURITIES - SECURITIES IN PRIMARY DISTRIBUTION IN OTHER JURISDICTIONS

Registrants executing orders on behalf of residents of the province in which they are registered must ensure that the securities being purchased are qualified for sale in that province. The receipt of an order by a registrant, even though it is transmitted to and executed on an exchange outside the province is still an act in furtherance of trading within the province. If the security is in primary distribution, a prospectus duly accepted for filing by the administrator (Commission) must be delivered to or received on behalf of the client in all cases.

The securities of open-end investment companies or common law trusts ordinarily referred to as "mutual funds" are always in primary distribution. It is particularly important for registrants to take care when orders are placed with them for american funds. Some of these funds are qualified for sale in the provinces but many are not. Similar situation applies when orders are received for securities in primary distribution in other jurisdictions. It is the responsibility of the registrant to ensure that the orders which he is executing are for securities that are duly qualified in this province.

NATIONAL POLICY NO. 21

NATIONAL ADVERTISING - WARNINGS

All advertisements placed in national publications and which name registrants or their affiliates and which concern issues that are in primary distribution, should contain a warning in the following words or to like effect:

> "This advertisement is not to be construed as a public offering in any province in Canada unless a prospectus relating thereto has been accepted for filing by a securities commission or similar authority in such province. The offering is made by the prospectus only and copies thereof may be obtained from such of the undersigned and other dealers as may lawfully offer these securities in such province."

If an offering is qualified in all provinces, the language above should be changed to suit a situation.

Advertisements "of record" which name registrants or their affiliates may appear in such national publications when the issue has been completely sold and is no longer in primary distribution without the above warning. In such cases, a statement to the effect that the issue has been so sold should be included.

NATIONAL POLICY NO. 22

USE OF INFORMATION AND OPINION RE MINING AND OIL PROPERTIES BY REGISTRANTS AND OTHERS

For the guidance of registrants and companies who wish to make use of information or opinion concerning mining or oil properties in reports, letters or other publications which may be used directly or indirectly to further the sale of the securities of the company owning or having an interest in particular properties being reported or commented upon and to ensure a uniform minimum standard in the use of such facts or opinion either orally or through publication, the following standards of disclosure and definition shall be complied with:

(1) In general the standards shall be those found in the "Guide for Mining Engineers, Geologists and Prospectors" (National Policy No. 2) under the heading "General" and "Sources of Information". The manner of description and the definitions used shall conform to those set out in the "Guide" under the heading "Contents".

(2) Sources of information and opinion shall be named specifically either by reference to a named person or an official publication.

(3) Where technical data are quoted or opinions based on technical information are expressed, the source of such facts or opinions must be in writing and made by a person who, in the opinion of the administrator (Commission), is a qualified Mining Engineer, Geologist or Prospector.

(4) Where the person making a report or offering opinions has any interest, direct or indirect, in the company whose shares are being distributed whether by way of share-holdings or other financial interest, or, where such person is an officer, director or employee of that company, the interest or position must clearly be disclosed.

(5) Such facts or opinions must be quoted verbatim and not out of context. The omission of unfavourable or negative facts of comment will be viewed as misleading.

(6) Where the results obtained fairly warrant either an upgrading or downgrading of the engineering reports already submitted and accepted for filing by the administrator (Commission), this is a material change and must be the subject of an amendment to the prospectus.

Failure to comply with these minimum standards will be viewed as affecting the fitness for registration of the registrant in whose name or on whose behalf such material is published or used.

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GENUINE PRESSBOARD BINDER
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